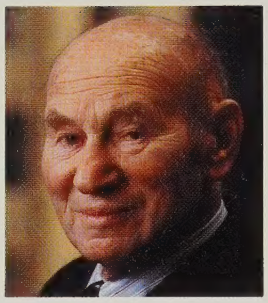
Witco Chemical

Fifty-Eighth Annual Report 1977



Robert I. Wishnick, Chairman Emeritus and a member of the Company's Board of Directors, continues to provide guidance to management. A founder of Witco, Mr. Wishnick also serves on the boards of several philanthropic organizations.

Notice of Annual Meeting

The annual meeting of shareholders will be held Wednesday, April 26, 1978, at 2:30 P.M., New York time, at Manufacturers Hanover Trust Company, 350 Park Avenue, 30th floor, New York, New York. The notice of meeting and proxy material will be mailed on or about March 24, 1978. Shareholders unable to attend this meeting are asked to sign and return their proxies promptly.

For a complimentary copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, send a written request to:

Charles A. Polachi, Vice President
Witco Chemical Corporation
277 Park Avenue
New York, New York 10017

Contents

Executive Offices
277 Park Avenue
New York, New York 10017
(212) 644-6300

Stock Registrar and Transfer Agent
Morgan Guaranty Trust
Company of New York
30 West Broadway
New York, New York 10015

Price Ranges of Stock on New York Stock Exchange Common Stock Symbol—WIT

	Common				Preferred			
	1977		1976		**1977**		1976	
Quarter	**High**	**Low**	High	Low	**High**	**Low**	High	Low
First	**$33⅜**	**$28**	$29½	$20½	**$79**	**$71**	$72	$51½
Second	**34**	**29⅛**	27¼	24	**82½**	**73¾**	66½	58½
Third	**30⅝**	**24⅛**	29½	25¾	**67¼**	**64¼**	72¼	65
Fourth	**29⅜**	**23**	30	25	**72**	**60**	73⅜	64
For the Year	**$34**	**$23**	$30	$20½	**$82½**	**$60**	$73⅜	$51½

Financial Highlights (Dollars in thousands, except per share data)

	1977	1976	% Change
Net sales	**$632,412***	$565,958	+12
Net income	**$ 24,643***	$ 23,062	+ 7
Net income per common share	**$ 4.30**	$ 4.10	+ 5
Dividends paid per common share	**$ 1.46***	$ 1.30	+12
Capital expenditures	**$ 29,404***	$ 27,398	+ 7
Depreciation, depletion and amortization	**$ 17,329***	$ 15,151	+14

*Record

About the Corporation

Witco is a producer of a wide range of special purpose chemical and petroleum products for industrial and consumer use. The Company concentrates on formulating products to meet customer specifications and applications, and has a skilled technical service and marketing staff to complement its specialty products manufacturing program.

The Cover

To ensure continued growth of our white oil business, a new hydrogenation unit will be built at Gretna, La. at a cost of over $28 million, the biggest single capital commitment in Witco's history. The cover shows a portion of our present hydrogenation unit at Petrolia, Pa.

Quarterly Financial Highlights (Dollars in thousands, except per share data)

	Sales		Earnings				Common Dividends Paid	
			Total		Per Share			
Quarter	**1977**	1976	**1977**	1976	**1977**	1976	**1977**	1976
First	**$149,101**	$131,918	**$ 4,556**	$ 5,457	**$ .80**	$ .98	**$ .35**	$ .30
Second	**167,298**	144,501	**6,254**	6,780	**1.09**	1.22	**.35**	.30
Third	**160,975**	145,439	**7,519**	5,519	**1.31**	.97	**.38**	.35
Fourth	**155,038**	144,100	**6,314**	5,306	**1.10**	.93	**.38**	.35
Total	**$632,412**	$565,958	**$24,643**	$23,062	**$4.30**	$4.10	**$1.46**	$1.30

Note: Preferred dividends were paid at the rate of $.6625 in each quarter or $2.65 each year.

"Both sales and dollar earnings were the highest in our 58-year history..."

"...the annual dividend paid on the common stock was increased and represented the seventeenth year in which the annual dividend paid on this stock was raised since the Company became publicly owned nineteen years ago."

We are pleased to report that 1977 was another successful year for the Company. Both sales and dollar earnings were the highest in our 58-year history, with primary per share earnings the second highest in our history. Sales of $632 million were 12% ahead of 1976, and earnings of $24,643,000 were 7% ahead of 1976. On a per common share basis, our 1977 earnings were $4.30 compared to $4.10 in 1976.

The improved performance in 1977 was due to a number of factors, among which were the expansion of business activity in the United States, a more profitable product mix, higher prices in several product areas, improvement in operating efficiency at our facilities and the phase out of certain unprofitable operations.

Dividend Increased

Dividends paid on the Common Stock in 1977 were $1.46 per share as compared to $1.30 in 1976. The year 1977 became the fifth consecutive year that the annual dividend paid on the Common Stock was increased and represented the seventeenth year in which the annual dividend paid on this stock was raised since the Company became publicly owned nineteen years ago. We are proud of this record that recognizes the importance of the needs of our shareholders.

Basic Objective

The Company's objective is to expand and capitalize in those areas of the special purpose chemical and petroleum business where we have basic strengths in manufacturing, marketing and technology. The major portion of our 1977 capital expenditure program of $29.4 million was spent to increase our penetration of those markets which we feel are most promising for us.

In support of our basic operating philosophy, certain other steps were taken in 1977 to upgrade and to improve our product lines, to develop new and better products, to improve the effectiveness of our marketing efforts, and to sell or phase out those operations whose future prospects did not fit into our program for planned growth.

Polybutylene Assets Sold

The assets of our polybutylene business were sold to Shell Chemical Company, a division of Shell Oil Company, for $12.3 million. This sale was at approximately book value and resulted in no material gain. Contrary to original expectations, polybutylene had not established a profitable niche for itself as a special purpose plastic. Instead, our polybutylene operation incurred a string of annual losses, and analysis indicated that polybutylene would grow more as a commodity than as a specialty. It also became clear that a very large investment would be required for polybutylene to compete in the commodity polyolefin market and to achieve profitability. It was decided that the capital required would be better spent in expanding our existing profitable line of businesses. Company net income in 1977 was reduced by $2,950,000, or 52 cents per share, from losses in polybutylene operations. This compared with 1976 losses of $2,100,000, or 38 cents per share.

Strategic decisions were also made regarding our future in specialty asphalts and petroleum-based binder pitch. At Perth Amboy, N.J. we eliminated the manufacture of petroleum-based binder pitch because our coal tar pitch facility at Point Comfort, Tex. is more economical under present conditions. At the same time, we sold our asphalt plant in Hammond, Ind. and concentrated specialty asphalt manufacturing at Lawrenceville, Ill.

Year of Progress

Much was accomplished during 1977 to strengthen other lines of our business. We completed the new Kenite® diatomaceous earth processing plant at Quincy, Wash. and the thiochemical unit at Taft, La. We commenced operations in Houston, Tex. for expanded blending and packaging of Kendall® and Amalie® lubricating oils. We completed start-up operations at our $10 million hydrogenation unit at Petrolia, Pa. and commenced manufacture of magnesium sulfonate by a new process at Gretna, La. We began work on a sizable expansion of our oxidized petrolatum operation in the Netherlands and also announced an investment in excess of $28 million for the largest

"Current indications point to capital expenditures in 1978 in excess of $35 million..."

"Should the economy continue to maintain its present strength, we would expect 1978 to be another successful year for Witco."

hydrogenation unit in the world for white oils. This also will be the largest capital outlay in the Company's history for any one project and reflects our determination to continue as the world's leading producer of these specialty petroleum products.

Higher Budgets Approved

Certain expenses that management considers essential for the future growth of the Company were increased in 1977. About $9.2 million was spent on research and development of new products, improvement of existing products and processes, and technical service to customers, compared to $8.1 million in 1976. About $6.1 million was spent to advertise the Company's products on television and radio and in magazines and other media, an increase of 15% over 1976. Approximately $5.0 million was spent to improve safety and the environment in an ongoing program, compared to approximately $4.7 million in 1976. Higher budgets for these programs have been approved for 1978, and we feel this is money well spent to develop, improve and expand our existing businesses.

New Directors

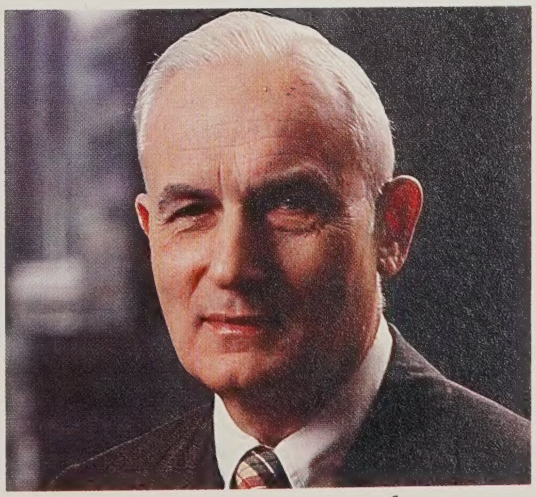
Since our last Annual Report, two new Directors have joined the Witco Board of Directors. Both of them bring wide and varied experience to our Company and will help to plan for our future. We welcome Leonard C. Yaseen, formerly Chairman of the Executive Committee of The Fantus Company, one of the Dun & Bradstreet companies, and John L. Weinberg, Senior Partner and Co-Chairman of the Management Committee of Goldman, Sachs & Co., one of the country's largest international investment banking and brokerage firms.

Outlook

In summary, 1977 was a year of substantial progress after a slow start at the beginning of the year. The level of business activity for the last six months of 1977 appears to be continuing in the early months of 1978. Should the economy continue to maintain its present strength, we would expect 1978 to be another successful year for Witco. We will continue to concentrate on those areas where we have established strengths. At the same time, we will be looking for new areas of challenge that fit into our overall program of growth for special purpose chemical and petroleum products. Current indications point to capital expenditures in 1978 in excess of $35 million, which is part of a continuing program of constantly increasing capital expenditures to help keep us in the forefront of our specialty areas.

We are proud of the accomplishments of 1977 and of the dedication, loyalty and hard work of our 5,130 employees who made our 1977 goals a reality. To them, to our Directors who guide the Company, and to our customers, suppliers and shareholders, we offer our sincere thanks for their continued support of the Company and its overall policies.

William Wishnick
Chairman and Chief Executive Officer



Henry Sonneborn III
President and Chief Operating Officer

February 23, 1978

William E. Setzler
Executive Vice President

Chemical Group sales increased during 1977 to $297,657,000, up 15%, which reflects an increase in both prices and volume. Material costs rose modestly throughout the year but other operating costs, such as those for wages and energy, increased at a faster rate, particularly during the first half of the year.

New Construction

The year saw the completion in the fourth quarter of Witco's new diatomaceous earth processing plant at Quincy, Wash. While operations in the new plant began too late in the year to have any impact on 1977 earnings, the start-up of the plant went smoothly. A substantial increase in sales and earnings is expected for this product line in 1978, as a result of our increased capacity.

Diatomaceous earth is an excellent filtration medium because of its unusual nature and composition. Composed of the siliceous skeletons of prehistoric plants, each diatomite particle is honeycombed with hundreds of microscopic channels that filter out suspended matter while allowing the clear liquid to pass through.

As a result of the increased capacity, the Company will be able to accelerate its deliveries of Kenite diatomite filteraids worldwide to the growing number of industries that are turning to this product to meet increasingly difficult filtration requirements. The enlarged capacity will also provide the Company with the capability to handle a greater volume of bulk hopper car shipments of diatomite products.

Witco currently offers many grades of diatomite filteraids to solve a wide variety of filtration problems in industry, and the use of Kenite diatomite filteraids has been growing rapidly in many fields—particularly food and beverage, petroleum, pharmaceutical and agriculture.

Our facility in Quincy is located on a 32-acre site which gives us ample room for expansion when warranted by market conditions. The plant contains advanced environmental control and safety equipment to assure clean air quality and employee safety. Extensive deposits of high purity diatomite ore are mined by the Company near the Quincy plant.

Another major expansion completed during 1977 was the thiochemical plant at Taft, La. Its completion enabled the Company to shut down its thiochemical unit in New Castle, Del. The plant will not only manufacture the standard Halby product line in larger quantity and higher quality, but also provides the capability to produce tailor-made thiochemicals to meet the demands of a more sophisticated market. The plant produces thioglycolates which are used as polymer stabilizer intermediates and compounds

Chemical Sales by Product Categories

Years Ended December 31 (Dollars in Thousands)	**1977**	1976	1975	1974	1973
Chemical products	**$219,390**	$186,572	$166,121	$180,949	$128,831
Detergent products	**76,265**	71,632	75,198	71,323	47,724
Miscellaneous	**2,002**	1,356	2,093	20,226	25,756
Total Product	**$297,657**	$259,560	$243,412	$272,498	$202,311
Geographic Sales					
Domestic	**$215,624**	$188,587	$167,912	$189,936	$149,394
International	**82,033**	70,973	75,500	82,562	52,917
Total Geographic	**$297,657**	$259,560	$243,412	$272,498	$202,311

for the cosmetic industry. The plant also produces ammonium, sodium and other thiocyanates in solution and crystalline form for use in acrylic fibers, photographic materials and herbicides.

Plastic Additives

Volume in PVC stabilizers and plasticizers rose more than 10% in 1977 over 1976, which was in line with general PVC industry growth. This increased activity in the PVC industry also resulted in good sales volume for stearates and waxes, although in the former product line, rising fats and oil prices depressed margins. In the non-PVC plastic areas, stabilizers for polypropylene enjoyed substantial volume increases and improved margins.

The Company's organic peroxide sales and earnings reached new high levels in 1977, exceeding those for 1976, the previous record year.

These products are used to initiate polymerization reactions. Witco organic peroxides are used in the manufacture of PVC, polyethylene and polystyrene and in cross linking unsaturated polyesters. This area of the Company's activity is characterized by a high technological input for research and development and sophisticated manufacturing operations.

In its programs to reduce vehicle weight and increase gasoline mileage, the automotive industry is using increasing amounts of plastics. Witco participates in this growing trend as a supplier of plastic additives and urethane chemicals.

Detergent Chemicals

The alkyl benzene plant at Carson, Calif. continued to operate at or near capacity for both detergent grade and chemical grade alkylate. Margins continued to be satisfactory. The Company is now engaged in a program at Carson that will ensure that the unit's benzene emissions will be well below the Federal Government's recently promulgated upper limit. Our work on benzene emission control will be completed in 1979.

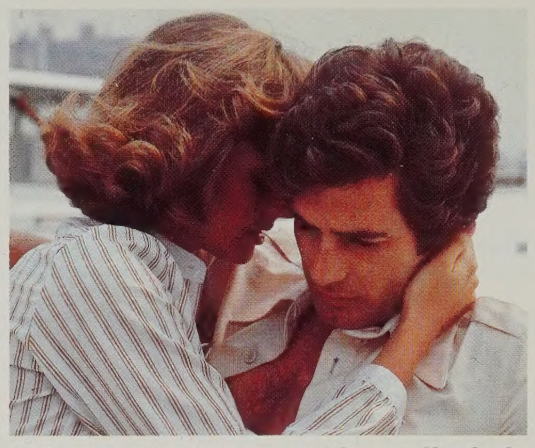
Volumes of other industrial detergent chemicals remained at the same level as in 1976. Private label packaged detergent case volume increased in 1977 over 1976 with a major supermarket chain entering our program. Competitive pricing, with rising raw material and labor costs, has had an inhibiting effect on packaged detergent margins so that, despite the sales growth, earnings were flat.

Urethane Chemicals

The upward spiral of energy costs has made our urethane foam insulation line increasingly attractive. Polyesters, which we sell to manufacturers of polyurethanes, increased in volume and this, combined with somewhat better margins, resulted in satisfactory returns. New polyester applications included a cellular headliner which is now used in several major automobile lines. Non-cellular and microcellular applications, including shoe soles, also increased in volume.

Surfactants

Sales of these products to oil producers for de-emulsification of crude oil were particularly gratifying. Satisfactory volumes were achieved in industrial specialties and toiletries, but sales in the agricultural field continued to suffer from the adverse effects of the agricultural chemical industry's lower level of activity during the last two years. To some extent, this lower activity has been due to the complicated registration process required by Federal laws. The Company now looks forward to increased sales of its agricultural emulsifiers, since the registration of a number of formulations containing our materials is almost complete. The lower return to the nation's farmer has inhibited the growth of the agricultural chemical market.



Thiochemicals are used in quality hair treatment formulations.

Diatomaceous earth from our mineral deposits is processed into Kenite® diatomite, a superb filtration medium.

Specialty products sold to the metalworking industry continued to show substantial year-to-year increases.

International
Higher inflation rates outside the United States, coupled with excess capacity in the European chemical industry, had a depressing effect on earnings in the United Kingdom, although from an operating earnings standpoint, 1977 was an improvement over 1976. In France, sales and earnings were comparable to those of the previous year and must be considered satisfactory in a generally depressed economy. The unfavorable exchange rate of the Canadian dollar against the American dollar reduced our margins on U.S. manufactured goods sold in Canada and made many of the raw materials for our Canadian subsidiary especially expensive. Both of these factors affected our Canadian earnings.

Mexico and Israel had excellent operating results during 1977. Mexico, after an off year in 1976 because of an unexpectedly large peso devaluation, was able in 1977 to rebound to its pre-devaluation profit levels. Israel, despite the large devaluation of the Israeli pound during 1977, was able to improve on the excellent 1976 operating results because of timely price increases put into effect as well as improved operating efficiencies.

Our ability to export chemical products is helped by the recent weakness of the dollar against European currencies, but the depressed state of the economy in Europe has had the effect of offsetting this advantage with lower prevailing prices there.

Chemical Industry Status
Several factors unique to the chemical industry deserve mention, as they will affect our sales and earnings in the coming year. The continuing high cost of new construction, further swelled in recent years by the necessary environmental control and energy-saving devices that must be included, requires higher margins on our products to justify new investment. Supply and demand of most of the basic chemical building blocks that Witco consumes in its manufacture of specialty chemicals are in good balance and, aside from the inflationary pressures of the general economy, no unusual raw material price increases are anticipated. The nature of our business, however, with relatively low individual product volumes coupled with high unit costs for development and marketing, requires that our selling prices accurately reflect all of our increased costs. Therefore, our program to increase margins by reducing costs is continuing.

A broad line of stabilizers, plasticizers, and lubricants is offered to the plastics industry.

Witco is one of the nation's leading manufacturers of detergents sold by supermarkets under their own brand-names.

New production facility at Taft, La. provides expanded capacity for thiochemicals.

J. Lawson Kennedy
Executive Vice President

Sales of the Petroleum Group were $334,755,000, an increase of approximately 9% over 1976. Gains were recorded in substantially all areas of our petroleum business, in terms of physical volume and dollars.

Considerable effort was made to prepare for the challenges and opportunities of the 1980's. Several major capital projects were approved which will expand and strengthen our position in special purpose petroleum products. Numerous additional energy conservation projects were also initiated.

Sonneborn Special Purpose Petroleum Products

Net domestic and overseas dollar sales of these products, which include white oils, petroleum sulfonates, petrolatums, and waxes, were approximately 18% over 1976. The increase in net sales was primarily the result of volume increases in sulfonates, SACI® rust preventive concentrates and white oils. The total volume increase over 1976 was approximately 8%.

To ensure continued growth of the white oil business, the Company has planned construction of a new hydrogenation unit at Gretna, La. The estimated investment, in excess of $28 million, will be the greatest single capital outlay in the Company's history. This facility, for the production of white oils, will be the largest of its kind in the world. In conjunction with our existing plants at Petrolia, Pa. and Amsterdam, the Netherlands, the new hydrogenation unit will enable the Company to maintain its worldwide leadership in the production and sales of white mineral oils. On-stream operation is targeted for mid-1980.

The continuing rapid growth of our petroleum sulfonate business in general and our magnesium sulfonate business in particular led to the construction of a new magnesium sulfonate unit at Gretna, La. This facility, employing new, more economical process technology, went on-stream early in 1977. Plans for further expansion are already underway to meet increasing demands of the lubricating and fuel oil additive markets.

Our special sulfonates, formulated for use in the tertiary recovery of crude oil, were sold for four crude oil production pilot projects during 1977. One of the projects was undertaken by Witco's Kendall/Amalie Division and two other oil companies, with half of the required investment being funded by a grant from the Federal Government's Energy Research and Development Administra-

Petroleum Sales by Product Categories

Years Ended December 31 (Dollars in Thousands)	**1977**	1976	1975	1974	1973
Petroleum products	**$279,183**	$244,249	$227,633	$233,982	$139,845
Asphalt and coal tar products	**40,942**	44,559	40,734	43,947	22,599
Miscellaneous	**14,630**	17,590	15,955	6,365	5,948
Total Product	**$334,755**	$306,398	$284,322	$284,294	$168,392
Geographic Sales					
Domestic	**$300,446**	$275,799	$258,435	$253,964	$148,615
International	**34,309**	30,599	25,887	30,330	19,777
Total Geographic	**$334,755**	$306,398	$284,322	$284,294	$168,392

tion. If successful results are obtained from these pilot tertiary recovery projects, large-scale use of petroleum sulfonates for this purpose can be expected during the 1980's.

Plans to construct a new facility in Holland to produce oxidized petrolatums were also announced. A plant based on new technology developed by our Dutch subsidiary will more than triple oxidized petrolatum production capacity. The output will be marketed to producers of rust-proofing compounds throughout Europe.

Special purpose petroleum products have been a major contributor to the profitability of Witco's petroleum operations and, through the commitments outlined above, we are confident that they will continue to be so in the years to come.

Kendall/Amalie Lubricants

Continued emphasis was placed upon deeper penetration into existing markets for both Kendall and Amalie branded lubricants. Combined U.S. domestic shipments of Kendall and Amalie motor oils increased by over 3% during 1977, while estimated U.S. domestic lubricating oil demand increased approximately 1%. Kendall and Amalie exports declined slightly from 1976 levels due to the prolonged dock strike.

Several steps were taken to further improve the Company's market position. The introduction of the Dispos-a-Jug® for Kendall oil was greeted enthusiastically by distributors, retailers and consumers. The successful marketing of this one-gallon plastic jug of motor oil, which when emptied can be reused to dispose of oil drainings in an environmentally acceptable manner, was a first in the industry. In addition, the packages for the Kendall and Amalie line of lubricants were fully redesigned.

We are introducing new synthetic-fortified motor oils in 1978. These new additions to our branded line will improve gasoline mileage and extend drain intervals in both new and older automobiles.

A blending and packaging plant in Houston, Tex. was brought on-stream. We arranged for a can supplier to build an adjacent manufacturing facility for the millions of cans which we will use. With our new plant, we will be better able to serve the important Southwestern market for Kendall and Amalie branded oils and for private label lubricants.

Crude Oil Development

To assure a continued supply of Pennsylvania grade crude oil for our Bradford, Pa. refinery, the Company approved crude oil production expenditures more than double those of 1976. In all, we completed a total of 57 wells. Although extremely cold weather in Ohio and Pennsylvania during the first quarter of 1977 hindered our crude oil operations and delayed several projects, the tempo picked up considerably during the last half of the year.

The continued commitment to increasing crude oil production is evidenced by maintaining the existing high level of investments in our 1978 crude oil development budget. Our Company's own wells supplied about 30% of our Bradford refinery's crude oil requirements; it is planned to increase this percentage in 1978.

As in the past, efforts are underway to utilize enhanced recovery techniques. In addition to the joint project on tertiary recovery of crude oil mentioned previously, the Company began a secondary recovery project (waterflood) on one of our properties in Bradford, Pa.

Golden Bear Special Purpose and Private Label Lubricants

Combined sales of these products, produced at our Bakersfield, Calif. refinery, exhibited considerable growth over the prior year. Total refinery thruput was up 12%, and continued progress is anticipated for 1978 with the introduction of a

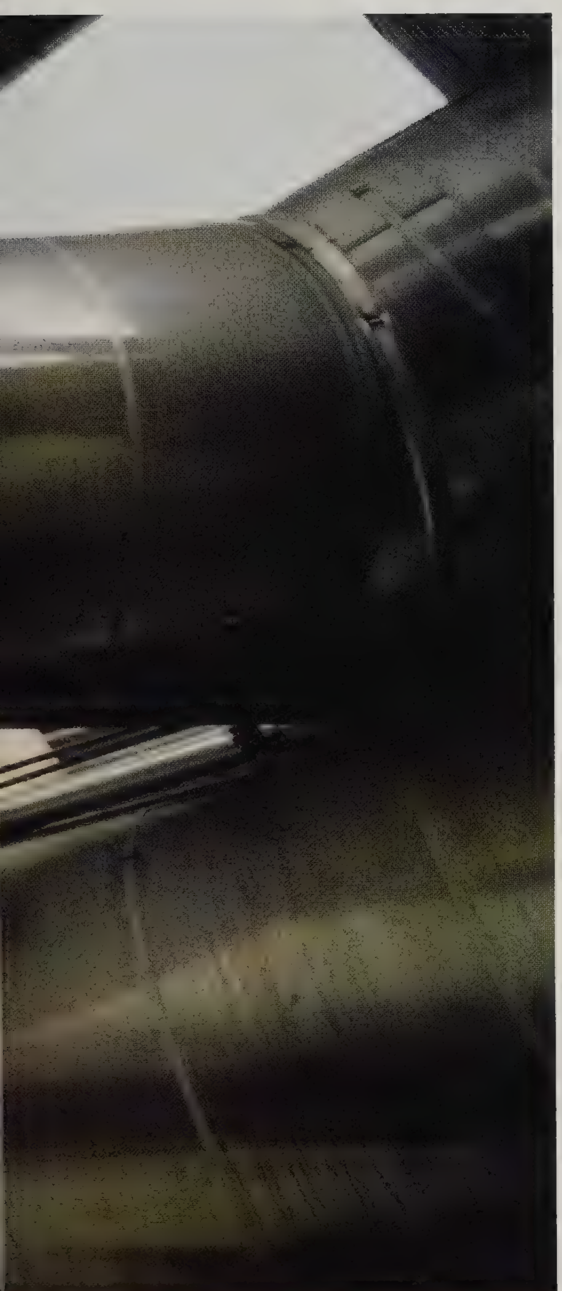
Exceptional purity makes our white oil an industry standard.


Automobiles use many of our products, including SACI® corrosion inhibitors, which provide outstanding rust protection for undercoatings and frames.

The hydrogenation unit at Petrolia, Pa. is used for the manufacture of white oil and petrolatum.

Reclamite® rejuvenating agent adds years to the service life of asphalt pavements.

Packages for Kendall® and Amalie® lubricants were recently redesigned.



newly approved railroad locomotive oil and an unusual naphthenic base 2-cycle engine oil.

Asphalt and Coal Tar Specialties

Some far-reaching changes were made in these operations during 1977. After discontinuing asphalt specialty production at Perth Amboy, N.J. in late 1976, the Company further consolidated its position by selling its Hammond, Ind. asphalt plant in 1977. We simultaneously increased asphalt processing capabilities at our remaining plant in Lawrenceville, Ill.

Unit sales of both coal tar pitch and creosote were up approximately 30% over 1976 levels. This was made possible by an upturn in the aluminum industry, to which our pitch is sold. With increased pitch production came a greater yield of its co-product, creosote, which we sell to companies in the wood-treating industry.

Sales of Coherex® dust control agent and Reclamite® asphalt rejuvenating agent were about equal to 1976 levels. This flat performance contrasted with quite vigorous growth during the past five years. The Company has recently initiated a marketing plan to expand sales of Reclamite and Coherex products on the East Coast.

During 1977, the Company introduced Cyclogen® recycle agent for use in recycling old asphalt pavements. The rising cost of asphalt, coupled with the shortage of acceptable aggregate, has raised the level of interest in asphalt pavement recycling. Our technology in this area is generally recognized as being at the forefront and we are gearing our efforts to maintain this position.

Energy Utilization

The conservation of energy is a major goal at all of the Petroleum Group's locations, and considerable progress was made in reducing energy requirements per unit of output at a number of our facilities. Insulation programs, many employing Witco's polyurethane foam, are among the steps being taken. Several of our plants have conducted studies aimed at reducing overall energy consumption through process changes, and the indicated changes are now being made.

While most of our processing facilities are equipped with multiple (oil/gas/coal) capability to meet possible gas shortages, the concept is being expanded to include additional locations. Where feasible, we are converting gas or fuel oil boiler installations to coal-burning. In particular, a new coal-fired boiler is being erected at our Bradford, Pa. refinery to replace two oil-fired boilers, at a cost of over $4 million. It is anticipated that when completed in mid-1979, the new boiler will substantially reduce our yearly energy cost.

George F. Polzer, Jr.
Executive Vice President

The Commercial Services Group initiated several new programs to provide the operating divisions with the centralized services needed to promote the Company's growth and efficiency.

Purchasing, Distribution & Traffic
A number of supply agreements which continue to be extremely important to the Company in its constant efforts to minimize increasing raw material and packaging costs were completed. Included in these efforts were arrangements for an on-site can manufacturing facility adjacent to our new Houston, Tex. canning plant. The installation of a computerized rail car program which monitors approximately 800 rail cars required to service our plants and customers was completed. This system will maximize rail car utilization, service our customers more efficiently and provide cost reductions in this phase of operations.

Corporate Communications
A number of changes aimed at improving communications with customers, employees and the investing public were initiated. Progress was made on the establishment of a videotape capability throughout the Company to facilitate safety programs and other informational and educational programs planned within the Company. An audiovisual program was prepared to train employees in the proper handling and shipping of hazardous materials.

Regulatory Compliance
Ever-increasing government regulations at Federal, state and local levels have resulted in an increasing amount of effort to ensure compliance. The Toxic Substances Control Act and the regulations pertaining to the Act continue to be a major and ongoing problem for the chemical industry and the Company. The Company is, of course, complying with these regulations, but an increasing number of man-hours and funds are involved in this type of activity.

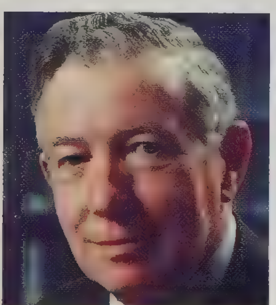
Safety
A program to provide a safer working environment for all employees was accelerated. Recordable injuries were reduced 13% in 1977, compared with 1976, although lost-workday cases increased. To a great extent, this increase reflects the closer attention being paid to minor injuries by the medical profession. An intensive Company-wide safety training program is under way. An industrial hygiene program has been developed for all major plants to assist their work force in maintaining acceptable exposure limits. Every effort is being made to conform with all Occupational Safety and Health Act regulations, and with regard to the Environmental Protection Agency, at year-end, the Company had either complied or was meeting prescribed compliance schedules at all locations.

Corporate Engineering
Corporate engineering completed sixteen new projects, the largest being the diatomaceous earth processing plant at Quincy, Wash. The thiochemical unit at Taft, La. was also completed, and preliminary engineering was begun on the $28-million-plus hydrogenation unit to be erected at Gretna, La. for the production of white oil. In anticipation of increased capital expenditures, plans are under way to broaden our engineering capabilities.

Financial Review

Income Before Income Taxes and Extraordinary Items

Years Ended December 31 (Dollars in Thousands)	**1977**	1976	1975	1974	1973
Segment Operating Income:					
Petroleum Segment	**$40,343**	$36,041	$34,171	$34,428	$23,475
Chemical Segment	**23,859**	24,664	19,205	27,102	19,354
Inter-Segment Eliminations	**(2)**	(2)	72	(2)	(33)
Operating Income	**64,200**	60,703	53,448	61,528	42,796
Non-Operating Expenses—Net	**(16,700)**	(14,698)	(18,990)	(13,625)	(10,536)
Interest Expense—Net	**(3,930)**	(4,001)	(4,825)	(4,471)	(3,139)
Income Before Income Taxes and Extraordinary Items	**$43,570**	$42,004	$29,633	$43,432	$29,121
Geographic Operating Income:					
Domestic Area	**$56,459**	$53,573	$48,050	$46,465	$34,665
International Area	**7,746**	7,262	5,273	15,417	7,994
Inter-Area Eliminations	**(5)**	(132)	125	(354)	137
Total Geographic	**$64,200**	$60,703	$53,448	$61,528	$42,796



William J. Ashe
Senior Executive Vice President

Sales and Earnings

Net sales for 1977 were $632,412,000, an increase of $66,454,000, or 12% over 1976 sales of $565,958,000. Net income for 1977 amounted to $24,643,000, or $4.30 per share, an increase of 7% over 1976 net income of $23,062,000, or $4.10 per share.

Net income as a percent of sales for 1977 was 3.9% as compared to 4.1% in 1976. The decline in the return on sales resulted from an increase in the Polymer Division operating losses as well as the inability to pass through all increases in costs of operating the business. Our return on invested capital (net income as a percentage of average shareholders' equity) was 14.3% in 1977 as compared to 14.9% in 1976.

Working Capital

Working capital at year-end increased to $116 million compared to $94 million in the prior year. At December 31, 1977 the ratio of current assets to current liabilities was 2.50 to 1, which is an improvement over the 2.35 to 1 ratio at December 31, 1976. While net income derived from operations is an important source of working capital, depreciation is also an important contributing factor. Depreciation represents a charge for wear and tear against operating income to cover the cost of capital equipment utilized in manufacturing of our special purpose chemical and petroleum products. The charge for depreciation, depletion and amortization amounted to $17 million as compared to $15 million in the prior year. Depreciation as a percentage of average gross investment in plant, property and equipment in 1977 was 6.5% as compared to 6.2% in 1976.

Capital Expenditures

Capital expenditures in the current year were $29.4 million as compared to $27.4 million in the prior year, an increase of 7.3%. These expenditures represent additional investments in capital equipment for expansion, modernization and new facilities. A part of these investments is mandated by the ever increasing requirements to meet the new standards for environmental and safety laws.

Long-Term Debt

Long-term debt at December 31, 1977 was $69.3 million, down from $72.2 million of the prior year. The Company, in addition to making normal principal payments on its long-term debt, also purchased in the open market $2.3 million of additional debentures to be applied to future years' requirements.

Dividends

Dividends paid on the Common Stock were $1.46 per share as compared to $1.30 in the prior year, an increase of 12%. The dividends paid on preferred were $2.65 per share, the same in both years. The number of shares of common increased from 5,590,989 shares at year-end in 1976 to 5,695,660 shares at year-end of 1977, due principally to conversion of Preferred Stock and the exercise of employee stock options.

New Reporting Requirements

The Financial Accounting Standards Board has issued a number of statements affecting financial reporting, none of which had a material effect on the Company. These statements included accounting for Oil and Gas transactions (the principal element being the successful efforts method of accounting), Lease Transactions and Segment Reporting.

Consolidated Statements of Income

For the years ended December 31		1977	1976
Net Sales and Other Income:			
Net sales		**$632,412,000**	$565,958,000
Interest		**1,484,000**	1,400,000
Miscellaneous—net		**1,409,000**	1,020,000
	Total	**635,305,000**	568,378,000
Costs and Expenses:			
Cost of goods sold		**513,646,000**	456,845,000
Selling and administrative expenses		**55,346,000**	48,977,000
Depreciation, depletion and amortization		**17,329,000**	15,151,000
Interest		**5,414,000**	5,401,000
	Total	**591,735,000**	526,374,000
Income Before Federal and Foreign Income Taxes		**43,570,000**	42,004,000
Federal and Foreign Income Taxes		**18,927,000**	18,942,000
Net Income		**$ 24,643,000**	$ 23,062,000
Per Common Share:			
Net income		**$4.30**	$4.10
Net income—assuming full dilution		**$3.98**	$3.75

The Notes to Financial Statements on pages 18 through 24 should be read in conjunction with these financial statements.

Consolidated Balance Sheets

At December 31	1977	1976
ASSETS		
Current Assets:		
Cash, including certificates of deposit of $8,500,000 and $5,600,000	**$ 16,829,000**	$ 15,852,000
Short-term investments—at cost which approximates market	**17,055,000**	7,599,000
Accounts and notes receivable, less reserve of $955,000 and $785,000	**84,939,000**	75,436,000
Inventories	**71,182,000**	62,255,000
Prepaid expenses	**3,413,000**	3,306,000
Total Current Assets	**193,418,000**	164,448,000
Investments in Associated and Other Companies, less reserve of $2,266,000 and $2,237,000	**6,519,000**	6,235,000
Property, Plant and Equipment—at cost, less accumulated depreciation, depletion and amortization	**135,180,000**	137,073,000
Intangibles Applicable to Companies Acquired, less amortization of $890,000 and $815,000	**12,537,000**	12,612,000
Deferred Costs and Other Assets	**5,537,000**	8,596,000
Total Assets	**$353,191,000**	$328,964,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes and loans payable, including current portion of long-term debt	**$ 5,088,000**	$ 3,359,000
Accounts payable and other liabilities	**66,159,000**	60,729,000
Dividends payable	**2,244,000**	2,050,000
Federal and foreign income taxes	**3,818,000**	3,929,000
Total Current Liabilities	**77,309,000**	70,067,000
Long-Term Debt	**69,310,000**	72,213,000
Deferred Credits	**26,651,000**	23,883,000
Shareholders' Equity:		
$2.65 Cumulative Convertible Preferred Stock, par value $1 (minimum liquidating preference $7,902,000 and $9,321,000 on outstanding shares):		
Authorized—338,655 shares		
Issued and outstanding—119,728 shares and 141,223 shares	**120,000**	141,000
Common Stock, par value $5 per share:		
Authorized—10,000,000 shares		
Issued and outstanding—5,695,660 shares and 5,590,989 shares	**28,478,000**	27,955,000
Capital Surplus	**4,194,000**	3,349,000
Retained Earnings	**147,129,000**	131,356,000
Total Shareholders' Equity	**179,921,000**	162,801,000
Total Liabilities and Shareholders' Equity	**$353,191,000**	$328,964,000

The Notes to Financial Statements on pages 18 through 24 should be read in conjunction with these financial statements.

Consolidated Statements of Retained Earnings

For the years ended December 31	1977	1976
Balance at Beginning of Year	**$131,356,000**	$116,477,000
Net income	**24,643,000**	23,062,000
Dividends declared:		
$2.65 Cumulative Convertible Preferred Stock	**(334,000)**	(425,000)
Common Stock ($1.49 per share and $1.35 per share)	**(8,449,000)**	(7,484,000)
Excess of cost of Treasury shares issued over the par value of the Preferred Stock converted and the amount charged to Capital Surplus	**—**	(52,000)
Excess of par value of Common Stock issued over the par value of the Preferred Stock converted and the amount charged to Capital Surplus	**(87,000)**	(222,000)
Balance at End of Year	**$147,129,000**	$131,356,000

Consolidated Statements of Capital Surplus

For the years ended December 31	1977	1976
Balance at Beginning of Year	**$ 3,349,000**	$ 3,605,000
Excess of amounts received over par value of shares of Common Stock issued on exercise of stock options	**1,004,000**	162,000
The portion of the excess of par value of Common Stock issued over the par value of the Preferred Stock converted, equal to the pro rata contribution to Capital Surplus which arose on issuance of the Preferred Stock	**(159,000)**	(409,000)
The portion of the excess of cost of Treasury shares issued over the par value of the Preferred Stock converted, equal to the pro rata contribution to Capital Surplus which arose on issuance of the Preferred Stock	**—**	(9,000)
Balance at End of Year	**$ 4,194,000**	$ 3,349,000

The Notes to Financial Statements on pages 18 through 24 should be read in conjunction with these financial statements.

Consolidated Statements of Changes in Financial Position

For the years ended December 31	1977	1976
Sources of Working Capital:		
Net income	$ 24,643,000	$ 23,062,000
Depreciation, depletion and amortization	17,329,000	15,151,000
Other items not affecting working capital	2,472,000	2,589,000
Working Capital Provided from Operations	44,444,000	40,802,000
Additional long-term debt	1,511,000	719,000
Reduction in investments in associated and other companies	—	3,788,000
Net book value of property, plant and equipment dispositions	13,584,000	1,605,000
Net book value of patents and licenses dispositions	1,624,000	—
Exercise of employee stock options	1,260,000	203,000
Funds from bond trustee for construction	1,026,000	3,251,000
Other—net	880,000	810,000
Total Sources	$ 64,329,000	$ 51,178,000
Uses of Working Capital:		
Property, plant and equipment expenditures	$ 29,404,000	$ 27,398,000
Dividends to shareholders	8,783,000	7,909,000
Reductions in long-term debt	4,414,000	2,781,000
Increase in investments in associated and other companies	—	816,000
Increase in working capital	21,728,000	12,274,000
Total Uses	$ 64,329,000	$ 51,178,000
Increase (Decrease) in Working Capital:		
Cash and short-term investments	$ 10,433,000	$ 8,951,000
Accounts and notes receivable	9,503,000	9,647,000
Inventories	8,927,000	6,515,000
Notes and loans payable	(1,729,000)	863,000
Accounts payable and other liabilities	(5,430,000)	(8,698,000)
Federal and foreign income taxes	111,000	(3,654,000)
Other—net	(87,000)	(1,350,000)
Increase in Working Capital	$ 21,728,000	$ 12,274,000

Exclusive of conversion of Preferred Stock into Common Stock

The Notes to Financial Statements on pages 18 through 24 should be read in conjunction with these financial statements.

1. Summary of Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of all subsidiaries. Material intercompany items and transactions are eliminated in consolidation. Minority interests in net assets and net income of subsidiaries are not material.

Inventories: Inventories are principally stated at cost on the Last-In, First-Out basis (LIFO) which is not in excess of market. The balance of the inventories are stated at the lower of cost or market, cost substantially on the First-In, First-Out basis (FIFO).

Investments in Associated and Other Companies: Investments in associated companies are stated at cost, adjusted for equity in earnings or losses and dividends. Sales and costs of these associated companies are not included in the Consolidated Statements of Income; however, the Company's equity in the earnings of these companies is included under the caption "Miscellaneous—net" in these statements. Appropriate provision is made for Federal income taxes applicable to such earnings. Investments in other companies are carried at cost (net of reserve for loss) and the Company's consolidated net income includes only dividends and/or interest received from such companies.

Property, Plant and Equipment: Expenditures for major renewals and improvements of fixed assets and development costs of productive wells are capitalized. Expenditures for maintenance and repairs are charged to income as incurred. Development costs and applicable leasehold costs of wells proven to be nonproductive are charged currently to income. At the time fixed assets are disposed of, it is the policy of the Company to reduce the appropriate asset accounts and the related accumulated depreciation, depletion and amortization accounts, with any gain or loss on disposal credited or charged to income.

Depreciation and amortization are provided for principally by the straight-line method, based on the estimated useful lives of the depreciable assets and the terms of the related leases. Depletion of oil and gas properties is computed by the unit-of-production method on an individual lease basis, based upon recoverable quantities of oil and gas as estimated by the Company. Depletion is additionally provided in an amount equal to the tax benefit of the capitalized intangible development costs in the periods incurred.

Intangibles Applicable to Companies Acquired: Intangibles applicable to companies acquired prior to November 1970 are not being amortized. The intangibles applicable to companies acquired since that date are being amortized over forty-year periods.

Deferred Credits: Deferred credits consist principally of deferred Federal and foreign income taxes which result primarily from differences in depreciation methods used for financial reporting and tax purposes, and investment tax credits which are being amortized over the estimated useful lives of the related fixed assets.

Pension Plans: The Company has several pension plans covering substantially all of its employees. The Company's policy is to fund these plans based on appropriate actuarial methods and pension costs are based on such methods. Past service costs for the plans are amortized over 10 years.

Net Income Per Common Share: Net income per common share is based upon the weighted average number of common shares outstanding during each year and after recognition of the dividend requirements on the Preferred Stock. Common Stock equivalents (stock options) are omitted from this computation since their inclusion would not have a material dilutive effect on the per share amount. Fully diluted net income per common share reflects the assumed conversion of the outstanding Cumulative Convertible Preferred Stock and Convertible Subordinated Debentures, and the exercise of those stock options that would have a dilutive effect. Related dividend and interest requirements (net of tax effect) have been eliminated.

2. Distribution of Sales, Income and Assets

Years Ended December 31 (Dollars in Thousands) Segments	1977 Chemical Segment	1977 Petroleum Segment	1977 Consolidated	1976 Chemical Segment	1976 Petroleum Segment	1976 Consolidated
Net Sales						
Non-affiliated	$297,657	$334,755	$632,412	$259,560	$306,398	$565,958
Inter-segment	1,497	3,023	—	1,065	2,446	—
Total	$299,154	$337,778	$632,412	$260,625	$308,844	$565,958
Operating Income	$ 23,859	$ 40,343	$ 64,200	$ 24,664	$ 36,041	$ 60,703
Non-Operating Expenses—Net			(16,700)			(14,698)
Interest Expense—Net			(3,930)			(4,001)
Income Before Income Taxes			$ 43,570			$ 42,004
Identifiable Assets	$152,724	$159,195	$353,191	$156,698	$142,861	$328,964
Depreciation, Depletion and Amortization	$ 8,242	$ 8,875	$ 17,329	$ 7,665	$ 7,258	$ 15,151
Capital Expenditures	$ 12,911	$ 16,322	$ 29,404	$ 12,677	$ 14,548	$ 27,398

Geographic	1977 Domestic	1977 International	1977 Consolidated	1976 Domestic	1976 International	1976 Consolidated
Net Sales						
Non-affiliated	$516,070	$116,342	$632,412	$464,386	$101,572	$565,958
Inter-area	14,112	711	—	13,210	80	—
Total	$530,182	$117,053	$632.412	$477,596	$101,652	$565,958
Operating Income	$ 56,459	$ 7,746	$ 64,200	$ 53,573	$ 7,262	$ 60,703
Non-Operating Expenses—Net			(16,700)			(14,698)
Interest Expense—Net			(3,930)			(4,001)
Income Before Income Taxes			$ 43,570			$ 42,004
Identifiable Assets	$249,206	$ 62,713	$353,191	$240,600	$ 58,959	$328,964

The Company is a domestic and international producer of a wide range of special purpose chemical and petroleum products for industrial and consumer use.

Inter-segment and inter-area sales are accounted for on the same basis used to price sales to similar non-affiliated customers; such sales are eliminated in arriving at consolidated amounts.

Operating income is total revenue less operating expenses. Inter-segment profits in inventory of $2,000 in 1977 and 1976 and inter-area profits in inventory of $5,000 (1977) and $132,000 (1976) have been eliminated in the consolidated amounts.

Corporate assets, included in the consolidated amounts, are principally cash, short-term investments and investments in associated and other companies aggregating $41,272,000 (1977) and $29,405,000 (1976).

Included in the consolidated amounts are depreciation and amortization of $212,000 (1977) and $228,000 (1976), and capital expenditures of $171,000 (1977) and $173,000 (1976), applicable to corporate assets.

Additional information with respect to subsidiaries operating in foreign countries is as follows:

	1977	1976
Current Assets	$43,225,000	$39,241,000
Non-current Assets	19,488,000	19,718,000
Total Assets	62,713,000	58,959,000
Current Liabilities	23,218,000	22,486,000
Non-current Liabilities	7,125,000	6,538,000
Total Liabilities	30,343,000	29,024,000
Net Assets	$32,370,000	$29,935,000

Net income includes net income of foreign subsidiaries aggregating $3,582,000 (1977) and $2,542,000 (1976), including exchange losses of $276,000 (1977) and $1,200,000 (1976). The difference between international operating income and international net income is the net effect of interest expense and foreign income taxes.

3. Inventories

Inventories are classified as follows:

	1977	1976
Raw materials and supplies	$34,221,000	$27,305,000
Finished goods (including work in process, which is not significant)	36,961,000	34,950,000
	$71,182,000	$62,255,000

The inventories would have been $42,881,000 and $36,851,000 higher than reported at December 31, 1977 and December 31, 1976, respectively, if the FIFO method of inventory accounting had been used by the Company for all of its inventories.

4. Property, Plant and Equipment

A summary of property, plant and equipment follows:

	1977	1976
Land	$ 5,600,000	$ 6,256,000
Mineral rights leaseholds	12,607,000	12,581,000
Intangible development costs	11,956,000	9,703,000
Buildings and building improvements	38,114,000	36,714,000
Machinery, fixtures and equipment	198,207,000	183,340,000
Leasehold improvements and related equipment	598,000	705,000
Assets under construction	7,902,000	15,635,000
Construction funds held by trustee	78,000	1,104,000
	275,062,000	266,038,000
Less: Accumulated depreciation, depletion and amortization	139,882,000	128,965,000
	$135,180,000	$137,073,000

At December 31, 1977, the estimated costs to complete projects in process and other projects currently authorized but not yet started amounted to $47,000,000.

The Financial Accounting Standards Board has recently issued a statement which is effective for fiscal years beginning after December 15, 1978. Such statement requires, among other matters, that companies having oil and gas producing activities utilize the successful efforts method of accounting to account for exploration and development costs. The effect of such statement on the Company's financial position or on its results of operations will not be material, as the Company has been employing the successful efforts method of accounting for exploration and development costs.

5. Notes and Loans Payable

As at December 31, 1977, the Company had understandings with six banks for unsecured domestic lines of credit aggregating $45,000,000. These banks have informally discussed and requested that the Company maintain average compensating balances of 10% on the full credit line and an additional 10% on the borrowings outstanding under the lines; however, the Company has no balances that are legally restricted. Additionally, the Company has arrangements with various banks for unsecured foreign lines of credit aggregating $10,700,000 (1977) and $9,000,000 (1976). Average outstanding daily borrowings under the domestic and foreign credit lines were $2,600,000 (1977) and $2,900,000 (1976) at a weighted average annual interest rate of 10.56% (1977) and 12.79% (1976), which was based upon daily outstanding borrowings and actual interest paid during the period. The maximum amount outstanding at any month-end was $4,300,000 (1977) and $3,200,000 (1976). Such outstanding borrowings amounted to $3,401,000 at December 31, 1977 ($1,801,000 at December 31, 1976) at an average annual interest rate of 9.53% (14.35% at December 31, 1976).

6. Long-Term Debt

Following is a summary of long-term debt:

	1977	1976
8⅛% Notes due 1993	$15,000,000	$15,000,000
7.45% Debentures due 1997	23,750,000	25,000,000
5% Sinking Fund Debentures due 1980	796,000	1,116,000
4.65% Notes due 1984	6,500,000	7,150,000
4½% Convertible Subordinated Debentures due 1993	14,250,000	15,000,000
6¼% Environmental Improvement Revenue Bonds, Series A of 1974	6,550,000	6,550,000
6¼% Industrial Revenue Bonds, 1974 Series	1,000,000	1,000,000
Other	3,151,000	2,955,000
	70,997,000	73,771,000
Less: Amount included in current liabilities	1,687,000	1,558,000
	$69,310,000	$72,213,000

The 8⅛% Notes are payable in annual installments of $1,000,000 commencing September, 1979.

The 7.45% Debentures provide for annual sinking fund payments of $1,250,000 commencing October, 1978.

The 5% Sinking Fund Debentures provide for sinking fund payments of $375,000 annually.

The 4.65% Notes are payable in annual installments of $650,000 with final payment of $2,600,000 in 1984.

The 4½% Convertible Subordinated Debentures are convertible into shares of Witco's Common Stock at $50 per share and provide for annual sinking fund payments, beginning in 1979, of 5% of the aggregate principal amount of the debentures outstanding on December 15, 1978.

The 6¼% Environmental Improvement Revenue Bonds, Series A of 1974, provide for annual sinking fund payments in amounts ranging from $220,000 to $690,000, commencing January, 1990, with a final payment of $735,000 in 2004. The 6¼% Industrial Revenue Bonds, 1974 Series, provide for annual sinking fund payments of $100,000 commencing January, 1990. The proceeds of each bond issue are held in escrow and may be used only for the purposes of each issue.

In 1977 the Company purchased debentures to be applied against sinking fund requirements as follows: 7.45% ($1,250,000); 5% ($320,000); and 4½% ($750,000). The gain on such purchases was not material.

As at December 31, 1977, principal payments on consolidated long-term debt required through 1982 amount to $1,687,000 (1978), $3,425,000 (1979), $4,284,000 (1980), $3,714,000 (1981), and $4,708,000 (1982).

The agreements covering certain borrowings include, among other matters, restrictions on the payment of cash dividends and the acquisition of the Company's stock. Consolidated Retained Earnings available for such purposes amounted to approximately $89,000,000 as at December 31, 1977.

7. Federal and Foreign Income Taxes

Provisions for income taxes were as follows:

	1977	1976
Income taxes currently payable	$16,456,000	$15,911,000
Tax effects of timing differences	2,471,000	3,031,000
	$18,927,000	$18,942,000

Tax effects of timing differences result primarily from the use of different depreciation and amortization methods for financial and tax reporting.

The difference between the effective tax rates and the 48% U.S. income tax rate is attributable to the following factors:

	1977	1976
Effective rate per statements of income	43.4%	45.1%
Investment tax credits	2.7	1.7
Percentage depletion allowed for tax purposes in excess of cost depletion	1.4	2.2
Foreign tax rates—net	(0.5)	(2.0)
Tax benefit of a loss arising from an investment in a foreign subsidiary	1.4	—
All other—net	(0.4)	1.0
U.S. income tax rate	48.0%	48.0%

In 1977 the Company recognized a tax benefit with respect to a loss on an investment in a foreign subsidiary. This loss was provided in prior years.

Accumulated unremitted earnings of foreign subsidiaries at December 31, 1977 aggregated $25,000,000. No Federal income taxes would be payable if such earnings were distributed (based on current tax rates, reduced by foreign credits).

8. Shareholders' Equity

Each share of the $2.65 Cumulative Convertible Preferred Stock, par value $1, is entitled to one vote, is subject to redemption at the Company's option at $66 per share, has a minimum liquidating preference of $66, and is convertible into 2.49 shares of the Company's Common Stock.

Transactions in the Company's issued Common Stock were as follows:

	Number of Shares	
	1977	1976
Balance at beginning of year	5,590,989	5,445,228
Conversion of 21,495 (1977) and 55,250 (1976) shares of Preferred Stock	53,503	137,536
Issued on exercise of options	51,168	8,225
Balance at end of year	5,695,660	5,590,989

During 1976, there were 2,927 Treasury shares issued upon the conversion of 1,176 shares of Preferred Stock.

As at December 31, 1977, unissued Common Stock of the Company is reserved for issuance in accordance with the terms of 4½% Convertible Subordinated Debentures (285,000 shares), the $2.65 Cumulative Convertible Preferred Stock (298,123 shares), and the stock option plan (201,713 shares).

The Company has a qualified stock option plan for employees which terminates on December 31, 1978. All options granted under this plan are granted at a price not less than the market price of the Company's Common Stock on the date of grant. Options expire five years from the date of grant. As of December 31, 1977 and 1976, there were 4,213 and 196,675 shares available for grant under this plan.

Stock option transactions were as follows:

	Shares	
	1977	1976
Outstanding at beginning of year	56,955	69,150
Granted ($26.375 per share)	197,500	—
Exercised	(51,168)	(8,225)
Canceled (of which 5,038 and 3,970 are reissuable)	(5,787)	(3,970)
Outstanding at end of year	197,500	56,955
Exercisable at end of year	—	56,955

9. Pension Plans

Pension costs expensed under formal pension plans maintained by the Company amounted to $3,260,000 (1977) and $2,960,000 (1976). Unfunded liabilities for several of the plans were approximately $1,300,000, at December 31, 1977. There were no unfunded vested benefits as of the same date.

10. Lease Commitments

Rental expenses in 1977 were $5,340,000 as compared to $5,380,000 in 1976, excluding mineral lease rentals.

As at December 31, 1977, minimum rental commitments under noncancellable leases amounted to:

For the year:	Total	Real Estate	Equipment
1978	$3,156,000	$1,255,000	$1,901,000
1979	2,329,000	1,226,000	1,103,000
1980	1,780,000	1,134,000	646,000
1981	1,617,000	1,124,000	493,000
1982	1,328,000	999,000	329,000
1983—expiration of leases	2,873,000	2,255,000	618,000

The provisions of the Financial Accounting Standards Board Statement on "Accounting for Leases" had no material effect on the accompanying financial statements or those of prior years.

1. Entitlements Program

The petroleum refining operations of the Company are subject to various Federal regulations, including those governing the crude oil cost equalization program —"entitlements" program. The purpose of this program is to equalize the cost of crude oil among refiners. The value of an entitlement is established under Federal regulation, and changes in the entitlement value parallel closely the changes in the market price of crude oil. During 1977 and 1976, the Company received $11,350,000 and $5,207,000, respectively, from other refiners under this program. These amounts are reflected in the consolidated statements of income as a reduction in cost of goods sold.

The entitlements program, which is administered by the Department of Energy, formerly the Federal Energy Administration, is scheduled to expire in 1979 under the present law; however, Congress is presently proposing legislation to replace the entitlements program. The Company cannot predict the outcome or the effect of such legislation.

2. Other Matters

The Company is contingently liable for approximately $2,000,000 on debt of a foreign affiliate due semi-annually through 1981.

During 1977, the Company adopted a Tax Reduction Act Employee Stock Ownership Plan (TRASOP) under which employees of the Company are awarded shares of the Company's Common Stock. The number of shares awarded annually is based on the dollar amount of an additional 1% investment tax credit utilized by the Company for Federal income tax purposes.

In 1977, the Company sold for cash all the operating assets, including inventories, of its polybutylene business. This transaction had no material effect on the Company's financial position. Net sales of polybutylene products were not material. The Company's net income in 1977 and 1976 was reduced by $2,950,000 (52 cents per share) and $2,100,000 (38 cents per share), respectively, from losses in polybutylene operations.

3. Litigation

The Company along with other parties and certain Company employees is a defendant in a civil action alleging, among other claims, violations of certain provisions of the Federal antitrust laws. Damages of $48 million, including treble damage antitrust claims of $45 million, are being sought in this action. Management considers the claims to be without merit and is contesting the action.

In addition, there are various other lawsuits pending against the Company.

Counsel to the Company has advised that it does not consider that the outcome of the above lawsuits will have a materially adverse effect on the Company's business or financial position.

14. Quarterly Financial Data (Unaudited)

Selected quarterly data for the years ended December 31, 1977 and 1976, in thousands of dollars, except for the per share data, are as follows:

	1977				1976			
Quarter	Net Sales	Cost of Goods Sold (a)	Net Income	Earnings Per Share	Net Sales	Cost of Goods Sold (a)	Net Income	Earnings Per Share
First (b)	$149,101	$127,298	$ 4,556	$ .80	$131,918	$110,007	$ 5,457	$ .98
Second	167,298	141,709	6,254	1.09	144,501	118,317	6,780	1.22
Third	160,975	132,446	7,519	1.31	145,439	122,197	5,519	.97
Fourth	155,038	129,522	6,314	1.10	144,100	121,475	5,306	.93
Total	$632,412	$530,975	$24,643	$4.30	$565,958	$471,996	$23,062	$4.10

(a) Includes the caption Depreciation, Depletion and Amortization, a portion of which is applicable to Selling and Administrative Expenses.

(b) During the first quarter of 1976, the Company's foreign subsidiaries adopted a November 30 fiscal year. As a result, the Consolidated Statement of Income in 1976 includes only eleven months of operations. This one-time change affected net sales by approximately $10,000,000, net income by $300,000, and earnings per share by 5 cents. The Consolidated Statement of Income for 1977 includes twelve months of operations.

15. Asset Replacement Cost Information (Unaudited)

In compliance with the rules of the Securities and Exchange Commission, the Company has estimated replacement cost information for certain inventories and property, plant and equipment together with the approximate effect which replacement cost would have on cost of goods sold and depreciation expense.

Such replacement costs, if the Company was to totally replace, would be higher than historical cost, resulting in increased cost of goods sold and depreciation expense.

Reference is made to the Company's Annual Report Form 10-K filed with the Securities and Exchange Commission (a copy of which is available upon request), which contains specific information with respect to replacement cost. The replacement cost information is intended to be an aid in understanding the effects of inflation on the current costs of operating a business and on the capital required to replace certain assets. Due to the necessarily subjective judgments required in estimating such data together with the theoretical problems in determining a quantifiable amount, no revised net income amount has been estimated and no such conclusion should be drawn by a reader from the data shown in the 10-K.

Accountants' Report

To the Board of Directors
Witco Chemical Corporation
New York, NY

We have examined the consolidated balance sheets of Witco Chemical Corporation and subsidiary companies as at December 31, 1977 and 1976, and the related consolidated statements of income, retained earnings, capital surplus and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the consolidated financial position of Witco Chemical Corporation and subsidiary companies at December 31, 1977 and 1976, and the consolidated results of their operations and the consolidated changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

S. D. Leidesdorf & Co.

New York, NY
January 31, 1978

Management's Discussion and Analysis of the Consolidated Statements of Income

The Company's performance for the year 1977 reflected the continuing strength in worldwide business activities as a result of the economic recovery which commenced during 1976 and continued in 1977. Such economic recovery assisted in the creation of an increased demand for the Company's products in 1977 while, at the same time, allowing the Company to realize increases in its selling prices.

Year-to-year changes in the consolidated statements of income captions for revenue and expense items are as follows:

	Percentage Increase/(Decrease) 1977 vs. 1976	1976 vs. 1975
Revenues:		
Net Sales	12%	7%
Interest	6	6
Miscellaneous—Net	38	(69)
Total Revenues	12	7
Costs and Expenses:		
Cost of Goods Sold	12	5
Selling and Administrative Expenses	13	12
Depreciation, Depletion and Amortization	14	9
Interest	—	(12)
Provision for Losses on Investments and Termination of Operations	—	(100)
Total Costs and Expenses	12	5
Income Before Federal and Foreign Income Taxes	4	42
Federal and Foreign Income Taxes	—	20
Net Income	7	66

Net Sales

In 1977, net sales attained record levels, increasing 12% to $632,412,000 compared to $565,958,000 for 1976, which was 7% greater than 1975 net sales. The 1977 increase over 1976 was the result of a unit volume increase of approximately 7% and an average domestic unit price increase of approximately 8%, while in 1976 the increase over 1975 was attributable to a unit volume increase of approximately 7% and a 6% domestic unit price increase. In addition, 1977 reflects twelve months of operations for the Company's international subsidiaries whereas, as a result of a change in fiscal years for these subsidiaries, in 1976 only eleven months of operations were reflected.

Miscellaneous—Net

Miscellaneous net of $1,409,000 in 1977 reflected a 38% increase over 1976. Miscellaneous net in 1976 was 69% less than the 1975 amount. The principal reasons for the 1977 increase were the reduced losses on foreign currency translation and the effect of the disposition of certain productive facilities, including the sale of the Company's polybutylene business.

The decrease between 1976 and 1975 resulted principally from the net effect of certain transactions which occurred in 1975: (a) approximately $3,500,000 of income was realized from the Company's decision to terminate its Carbon Black Distributorship Agreement and from a sale of technology, and (b) the Company had experienced operating losses from certain foreign affiliated companies which were sold during 1976.

Cost of Goods Sold

Cost of goods sold in 1977 totalled $513,646,000, an increase of 12% over 1976, which was $456,845,000 and represents an increase of 5% over 1975. The increases in both years were primarily a result of the increased unit sales volumes and related increases in raw material costs, wages, energy, and other manufacturing costs. In the Company's petroleum operations, the cost of purchased crude oil increased during both years, which was offset by the entitlements program of the Department of Energy (DOE). The Company received $11,350,000 and $5,207,000 during 1977 and 1976, respectively, under the entitlements program. These amounts are reflected in the consolidated statements of income as a reduction in cost of goods sold.

Selling and Administrative Expenses

The increase in selling and administrative expenses of 13%, from $48,977,000 in 1976 to $55,346,000 in 1977, and 12%, from $43,813,000 in 1975 to $48,977,000 in 1976, is primarily attributable to increases in employee salaries and fringe benefits, advertising expenditures, employee travel expenses, professional services and commissions paid on sales. In addition, 1977 includes an additional month of international operations not included in 1976.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization expenses of $17,329,000 in 1977 and $15,151,000 in 1976 represented an increase of 14% and 9% over the respective previous years. The increased capital expenditure programs during the last few years have led to increases in the Company's depreciation, depletion and amortization charges. Such expenditures were primarily for the expansion, modernization and consolidation of plant facilities; to cover environmental regulations mandated by the governmental authorities; Occupational, Safety and Health Authority (OSHA) requirements; and for the acquisition of crude oil mineral rights and the related producing activities associated with the extraction of crude oil from these mineral rights.

Interest Expense

Interest expense of $5,414,000 in 1977 was comparable to 1976's expense of $5,401,000. The 1976 interest expense was 12% lower than in 1975 primarily from the Company's lower borrowing levels and the elimination in 1976 of several commitment fees to maintain short-term borrowing arrangements.

Federal and Foreign Income Taxes

Total income taxes in 1977 did not increase significantly over 1976. However, total income taxes in 1976 increased 20% over 1975 due to increased taxable earnings.

Net Income

Net income in 1977 increased 7% to $24,643,000, from $23,062,000 in 1976. This increase was attributed primarily to reduced losses on foreign currency translations, higher sales volumes and a product mix yielding higher profit margins. Net income for 1976 increased by 66% because earnings in 1975 were adversely affected by $4,300,000, as a result of the establishment of a provision for losses on foreign investments. Before such loss provision, 1976 net income increased approximately 27% primarily from improved profit margins resulting from higher sales volumes.

Ten Year Statistical Summary

Years ended December 31 (Dollars in thousands, except per share data)	1977	1976
Summary of Operations		
Net sales	**$632,412**	$565,958
Other income—net	**2,893**	2,420
Total net sales and other income	**635,305**	568,378
Cost of goods sold	**513,646**	456,845
Selling and administrative expenses	**55,346**	48,977
Depreciation, depletion and amortization	**17,329**	15,151
Interest expense	**5,414**	5,401
Provision for losses on investments and termination of operations	**—**	—
Total costs and expenses	**591,735**	526,374
Income before Federal and foreign income taxes and extraordinary items	**43,570**	42,004
Federal and foreign income taxes	**18,927**	18,942
Income before extraordinary items	**24,643**	23,062
As per cent of net sales	**3.9%**	4.1%
Extraordinary credit (charge)	**—**	—
Net income	**$ 24,643**	$ 23,062
Net income applicable to Common Stock, after dividend requirements of Convertible Preferred Stock	**$ 24,309**	$ 22,637
Dividends declared	**$ 8,783**	$ 7,909
Financial		
Working capital	**$116,109**	$ 94,381
Ratio of current assets to current liabilities	**2.50**	2.35
Property, plant and equipment expenditures	**$ 29,404**	$ 27,398
Property, plant and equipment—net	**$135,180**	$137,073
Long-term debt	**$ 69,310**	$ 72,213
Total shareholders' equity	**$179,921**	$162,801
Book value per Common Share	**$ 30.20**	$ 27.45
Shareholders		
Number of shareholders—at year end	**7,145**	7,201
Per Common Share:		
Income before extraordinary items	**$4.30**	$4.10
Extraordinary credit (charge)	**—**	—
Net income	**$4.30**	$4.10
Shares used in this computation (b)	**5,656,414**	5,517,668
Per Common Share—assuming full dilution:		
Income before extraordinary items	**$3.98**	$3.75
Extraordinary credit (charge)	**—**	—
Net income	**$3.98**	$3.75
Shares used in this computation (b)	**6,277,542**	6,244,788
Dividends paid during calendar year per share:		
Common Stock	**$1.46**	$1.30
Preferred Stock	**$2.65**	$2.65
Market price, to the nearest dollar, per Common Share on New York Stock Exchange (high—low)	**$34-23**	$30-21

(a) A change to LIFO method of inventory valuation in 1974 for substantially all domestic inventories not previously valued on a LIFO basis decreased 1974 net income approximately $7.9 million or $1.52 per Common Share ($1.30 per Common Share—assuming full dilution).

(b) See Notes to Financial Statements—1. Summary of Significant Accounting Policies (Net Income per Common Share).

1975	1974(a)	1973	1972	1971	1970	1969	1968
$527,734	$556,792	$370,703	$293,517	$259,077	$237,219	$236,624	$228,161
4,653	4,911	3,148	3,351	2,578	2,918	4,467	3,169
532,387	561,703	373,851	296,868	261,655	240,137	241,091	231,330
434,627	453,039	290,295	229,126	204,957	185,712	187,700	179,390
43,813	46,464	38,079	32,385	27,262	25,606	25,190	21,570
13,866	12,431	12,047	10,303	9,502	8,328	7,805	7,725
6,148	6,337	4,309	2,735	2,275	2,436	2,167	1,542
4,300	—	—	—	—	—	—	—
502,754	518,271	344,730	274,549	243,996	222,082	222,862	210,227
29,633	43,432	29,121	22,319	17,659	18,055	18,229	21,103
15,771	19,792	12,871	9,637	7,489	7,793	7,866	9,870
13,862	23,640	16,250	12,682	10,170	10,262	10,363	11,233
2.6%	4.3%	4.4%	4.3%	3.9%	4.3%	4.4%	4.9%
—	—	402	(824)	359	527	(1,450)	557
$ 13,862	$ 23,640	$ 16,652	$ 11,858	$ 10,529	$ 10,789	$ 8,913	$ 11,790
$ 13,317	$ 23,025	$ 15,967	$ 11,116	$ 9,763	$ 10,004	$ 8,111	$ 10,909
$ 7,050	$ 6,650	$ 5,829	$ 5,557	$ 5,463	$ 5,408	$ 5,361	$ 4,998
$ 82,107	$ 74,406	$ 64,858	$ 67,285	$ 53,353	$ 41,830	$ 40,994	$ 44,575
2.41	1.93	2.07	2.38	2.60	2.07	2.14	2.18
$ 25,935	$ 27,625	$ 27,797	$ 15,762	$ 16,023	$ 12,747	$ 17,992	$ 15,092
$129,066	$119,286	$ 98,027	$ 81,913	$ 77,166	$ 71,893	$ 67,724	$ 60,240
$ 74,275	$ 75,196	$ 64,169	$ 57,838	$ 42,079	$ 32,911	$ 32,803	$ 31,560
$147,444	$138,993	$121,940	$112,846	$106,012	$100,304	$ 94,738	$ 89,955
$ 24.70	$ 23.78	$ 20.48	$ 18.26	$ 16.97	$ 15.93	$ 15.23	$ 14.27
7,352	6,768	6,630	6,300	6,700	7,000	6,500	6,620
$2.46	$4.43	$3.01	$2.31	$1.84	$1.88	$1.96	$2.18
—	—	$ .08	$(.16)	$ .07	$ .11	$(.30)	$ .11
$2.46	$4.43	$3.09	$2.15	$1.91	$1.99	$1.66	$2.29
5,416,033	5,195,387	5,166,632	5,174,191	5,100,236	5,031,204	4,888,502	4,756,809
$2.28	$3.94	$2.71	$2.11	$1.71	$1.74	$1.78	$1.98
—	—	$ .07	$(.13)	$ .06	$ .09	$(.24)	$ .10
$2.28	$3.94	$2.78	$1.98	$1.77	$1.83	$1.54	$2.08
6,233,275	6,082,567	6,111,416	6,184,818	6,145,676	6,079,652	5,988,327	5,682,255
$1.20	$1.12	$ .98	$ .92	$ .92	$ .92	$ .92	$ .86
$2.65	$2.65	$2.65	$2.65	$2.65	$2.65	$2.65	$2.65
$28-17	$29-17	$25-15	$30-21	$32-23	$25-14	$44-20	$44-22

Directors

*WILLIAM WISHNICK
Chairman and Chief Executive Officer

*ROBERT I. WISHNICK
Chairman Emeritus

*HENRY SONNEBORN III
President and Chief Operating Officer

*WILLIAM J. ASHE
Senior Executive Vice President-Finance and Administration;
Chairman-Finance and Executive Committees

ROBERT L. FELDMAN
Vice President-General Manager,
Golden Bear

**SIDNEY GOLDIN
Petroleum Consultant
Jacksonville, Florida

*WILLIAM R. GRANT
Vice Chairman-Endowment Management & Research Corporation,
Boston, Massachusetts

**STANLEY A. KAPLAN
Professor of Law, University of Chicago Law School; Attorney At Law, Counsel to Gottlieb & Schwartz, Chicago, Illinois

J. LAWSON KENNEDY
Executive Vice President-
Petroleum Group

GEORGE F. POLZER, JR.
Executive Vice President-Commercial Services

SAMUEL ROTHBERG
President-Israel Investors Corporation
New York, New York

WILLIAM E. SETZLER
Executive Vice President-
Chemicals Group

CHARLES H. TALLY
Attorney at Law, Senior Partner-Bachner, Tally & Mantell, General Counsel to Witco Chemical
New York, New York

***JOHN L. WEINBERG
Senior Partner-Goldman, Sachs & Co., Investment Bankers, New York, New York

JOHN H. WISHNICK
President-Roaring 20 Autos, Inc.
Wall, New Jersey

**LEONARD C. YASEEN
Economic Consultant
New York, New York

*Member of Executive and Finance Committees **Member of Audit Committee ***Effective January 24, 1978.

Corporate Officers

Executive and Staff

WILLIAM WISHNICK
Chairman and Chief Executive Officer

ROBERT I. WISHNICK
Chairman Emeritus

HENRY SONNEBORN III
President and Chief Operating Officer

WILLIAM J. ASHE
Senior Executive Vice President-Finance and Administration;
Chairman-Finance and Executive Committees

J. LAWSON KENNEDY
Executive Vice President-Petroleum Group

GEORGE F. POLZER, JR.
Executive Vice President-
Commercial Services

WILLIAM E. SETZLER
Executive Vice President-Chemicals Group

HOWARD S. BRYANT
Vice President-Engineering

GERALD KATZ
Vice President-Corporate Development

GEORGE W. MacFARLANE
Vice President-Industrial Relations

CHARLES A. POLACHI
Vice President-Corporate Communications

PAUL SALTZER
Vice President-Personnel

EARL L. HOGARD, JR.
Secretary

THOMAS J. BICKETT
Controller

PAUL M. FEENEY
Treasurer

Petroleum Group

SENIOR VICE PRESIDENT:
HENRY L. LEVKOFF

GROUP VICE PRESIDENT:
DENIS ANDREUZZI

VICE PRESIDENTS-
OPERATING DIVISION
GENERAL MANAGERS:

DENIS ANDREUZZI
Sonneborn

ROBERT L. FELDMAN
Golden Bear

MICHEAL D. MacBURNEY
Pioneer

RAYMOND D. SAUNDERS
Kendall/Amalie

Chemicals Group

GROUP VICE PRESIDENTS:
SEYMOUR COHEN
CARLO GIRAUDI
LEONARD R. WOOD

VICE PRESIDENTS-
OPERATING DIVISION
GENERAL MANAGERS:

ROY P. BOOS
Metal Treating Chemicals

SEYMOUR COHEN
Argus Chemical

HOWARD R. LEISTNER
U.S. Peroxygen

NORMAN F. OTTLEY
Inorganic Specialties

JACK R. RISSMAN
Ultra

EDWARD A. VISTICA
Witfield

EDWARD F. WAGNER
Organics

Management of Witco's Foreign Manufacturing Subsidiaries

CANADA
J. E. CUNNINGHAM
President
Witco Chemical Canada Limited (100%)
Savon-Majestic Ltée (100%)

ENGLAND
J. M. BROWN
Managing Director
Witco Chemical Limited (100%)

A. TAYLOR
Managing Director
The Baxenden Chemical Company Limited (53½%)

FRANCE
J. LEVEUF
President and Director General
Witco Chemical S. A. (100%)

ISRAEL
Y. LUBLINI
Managing Director
Witco Chemical Ltd. (60%)

MEXICO
A. ZAMORANO
Vice President and Director
Argus Quimica Mexicana S.A. de C.V. (100%)

the NETHERLANDS
C. N. KAPER
J. A. van LEEUWEN
Co-Managing Directors
Witco Chemical B.V. (100%)
Jonk B.V. (100%)

Affiliates

Continental Carbon Company (20%)
Houston, Texas

Petroquimica Argentina S.A. (PASA) (13½%)
Buenos Aires, Argentina

Industrias Quimicas ACSA Ltda. (50%)
São Paulo, Brazil

Manufacturing Locations

UNITED STATES

ALABAMA
LeMoyne

CALIFORNIA
Carson
Los Angeles
Lynwood
Oildale
Richmond (2)

DELAWARE
New Castle

ILLINOIS
Chicago (2)
Lawrenceville

LOUISIANA
Gretna
Taft

NEW JERSEY
Paterson
Perth Amboy

NEW YORK
Brooklyn

OHIO
Cleveland

PENNSYLVANIA
Bradford
Petrolia
Trainer

TEXAS
Houston (2)
Marshall
Point Comfort

WASHINGTON
Quincy

FOREIGN

CANADA
Brantford
Montreal
Oakville
Toronto

ENGLAND
Accrington
Droitwich
Dronfield
London

FRANCE
Elbeuf

ISRAEL
Haifa

MEXICO
Cuautitlan

the NETHERLANDS
Amsterdam
Haarlem
Koog Aan De Zaan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